



REMARKS OF ELMER B. STAATS
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AT THE
ASPEN INSTITUTE FOR HUMANISTIC STUDIES SYMPOSIUM
"THE QUIET CRISIS OF PUBLIC PENSIONS"

SEPTEMBER 23, 1979

[PUBLIC PENSION ISSUES]

I am pleased to be here this evening to discuss some of the major issues which face public pension plans today. While most pension studies by the General Accounting Office have focused on issues relating to retirement systems for Federal personnel, I believe many of the conclusions of our studies are applicable to State and local plans as well.

Since 1974, GAO has issued a series of reports covering a number of issues concerning basic policies, financing, administration, and benefits of various Federal retirement systems. Next to pay, these systems are the most significant and costly means used to compensate Federal personnel, and the liabilities associated with them represent a sizeable long-term financial commitment of the Government. In essence, our work has shown that Federal retirement programs have not received the management attention they deserve in view of their importance and tremendous costs. The systems

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have evolved without overall policy guidance. In the absence of such a policy, Federal retirement programs have developed and continue to develop on an independent, piecemeal basis, resulting in a patchwork of systems providing different benefits to various groups of employees.

The issues I would like to discuss this evening fall into five areas:

- Need for a retirement policy,
- Retirement funding,
- Disability retirement,
- Early retirement, and
- Indexing retirement benefits.

RETIREMENT POLICY

Based on our studies, I believe the primary issue that needs attention is the establishment of an overall, coherent, coordinated Federal retirement policy--a policy which outlines the principles, objectives, and standards to be followed in providing retirement benefits to military and civilian personnel. The policy should serve both management and employee needs and cover such matters as benefit levels, funding, social security coverage, vesting, and administration. While recognizing that special retirement provisions may be justified for particular groups, the policy's guiding principle should be that all Federal personnel receive consistent benefits.

I consider this to be the primary issue not only because a policy is needed to guide the future development of Federal pension plans, but also because such a policy could provide a foundation for resolving many of the other major issues. Let me mention some of the reasons why we have reached this conclusion.

We identified 38 separate retirement systems that are maintained for various groups of personnel by Federal agencies and instrumentalities. Many inconsistencies and inequities exist among the systems. Even though the personnel covered by them work for the same employer--the United States Government--they are treated quite differently depending on which retirement system applies to their employment.

All of the systems have the same basic objectives--to provide employees a continuing income during retirement or upon becoming disabled and to provide financial protection to survivors upon the death of active and retired employees. Yet, the systems differ substantially in areas such as (1) employee contribution rates, (2) benefit formulas, (3) retirement eligibility requirements, (4) creditable service, (5) disability policies and benefits, (6) survivor benefits, and (7) reemployed annuitant practices. Differences exist even within some of the retirement systems. Under the civil service retirement system--which covers most Federal

civilian employees--certain groups receive special benefits. While most participants are covered by the plan's general provisions, separate provisions grant higher annuities and/or allow earlier retirement ages for Members of Congress, congressional staff, law enforcement and firefighter personnel, and air traffic controllers.

In reviewing the historical development of each of the systems, including the civil service system, we found that it is often difficult to clearly identify any current management or compensation policies that are being served by the systems as they are now designed. In many cases, we could find no explanation why different provisions were adopted. In others, we found that the circumstances which existed at the time of adoption have changed, but that the provisions have been continued.

Different retirement benefits for personnel in the separate branches of Government or for certain positions within a branch may well be justified, particularly when such benefits are recognized as part of the total compensation paid to attract and retain needed personnel. We have long maintained that both Federal pay and benefits, including retirement, should be established and adjusted within the context of total compensation comparability with the non-Federal sector. However, under the pay comparability processes now in effect, benefit programs are excluded.

Whether social security should form the base for Federal retirement benefits is one of the many matters that must be considered in formulating an overall policy. One of the major inconsistencies among Federal retirement systems is that social security coverage is provided to some employees but denied to others. Employees covered by 25 of the 38 systems are also covered by social security. The civil service system is, by far, the largest of the 13 systems that do not allow social security coverage. Two of the consequences of excluding personnel from social security are that they do not receive the basic protection afforded by the program and do not share in the responsibility of meeting the basic needs of the Nation's elderly and disabled persons. If all Federal personnel are to receive consistent and equitable benefits, social security should be provided to all or none.

In this regard, we believe it would be a mistake to limit the social security debate to the civil service system alone. We are convinced, for example, that there is no justification for the military retirement system with its very generous benefits to be a total add-on to social security, as is now the case. We believe the larger issue of what appropriate overall policy the Government should follow in providing retirement benefits to its personnel should be resolved first before addressing the question of whether

the civil service and social security programs should be integrated. A narrower approach would be the type of piecemeal, uncoordinated development of Federal retirement programs that has caused the many inequities and inconsistencies that exist today.

In addition to not having an overall policy to guide the development of Federal retirement systems, there is a lack of central focus in the Government on retirement. Congressional committee jurisdictions and responsibilities over retirement matters are fragmented. For example, up to 11 committees in the House and 10 committees in the Senate could have legislative responsibilities for 12 of the Federal systems. Furthermore, the administration of these 12 systems is fragmented among 16 different organizations. We believe that the Congress should consider centralizing committee jurisdiction over retirement matters to better assure consistent application of retirement policy. We also believe that the Congress should consider establishing a permanent, independent board with authority and responsibility for monitoring the development, improvement, and administration of Federal retirement systems. Until there is some centralized management focus on retirement matters, it will be difficult to accomplish needed reforms.

RETIREMENT FUNDING

Perhaps the most critical issue involving public pension plans today--at least one which has received widespread publicity--is funding. GAO has reviewed the funding practices of both Federal and State and local plans. First, I would like to discuss what we found regarding Federal retirement systems.

Costing and funding procedures used by many Federal systems understate the full cost of providing retirement benefits. No uniform method is used in determining the liabilities associated with the systems, and costing and funding practices differ considerably. In most cases, the systems' funding requirements are less stringent than those imposed by law on private pension plans. Some systems are financed on a contributory basis; some on a noncontributory basis; some provide for fully funding benefits as they accrue; some provide for partial funding; and others are completely unfunded. In 1976, three major Federal retirement systems--military, civil service, and Foreign Service--reported unfunded liabilities in excess of \$273 billion, and these liabilities are estimated to increase to at least \$349 billion by 1986.

If the Congress does not receive realistic and consistent information on the cost of Federal retirement programs, its ability to make sound fiscal and legislative decisions

on establishing, amending, and funding retirement and agency programs is impaired. When the full costs are not recognized, benefits may be adopted which could jeopardize the eventual affordability of the retirement systems. Many would probably suggest that this has already happened. Full recognition of accruing retirement costs is essential not only in determining and allocating the cost of Government operations, but also in determining the present and future financial condition of the United States. Unfortunately, the Congress and the taxpayers are not being provided realistic and consistent cost information.

Civil service retirement costs are understated because they are calculated on a "static" basis, whereby no consideration is given to the effect of future general pay increases and annuity cost-of-living adjustments on ultimate benefit payments. Benefits payable under the system are based on employees' average annual earnings during their 3 highest-paid years, and, after retirement, semi-annual annuity adjustments are made to compensate for increases in the cost of living. Pay increases and annuity adjustments add significantly to the retirement system's liability, and ignoring them in cost calculations does not mean that they won't occur.

The static cost of benefits accruing annually under the civil service system is currently estimated to be 13.66 percent of pay, which is about equal to the combined rate of

contributions being made to the retirement fund by agencies and their employees (generally 7 percent of pay each). However, the Office of Management and Budget (OMB) has estimated that the "dynamic" cost of the system, including factors for pay and annuity cost-of-living increases, is 27.4 percent of pay. Based on this OMB estimate, Federal agencies should be contributing 20.4 percent of their covered employees' pay to the fund if their budgets are to reflect the full cost to the Government of benefits accruing under the system.

The total payroll for employees covered by the system is estimated to be about \$48.6 billion during fiscal year 1980. At 20.4 percent of pay, the estimated cost to the Government of benefits accruing during the year will be \$9.9 billion--\$6.5 billion more than the \$3.4 billion agencies will contribute to the retirement fund.

Because agencies are being charged only a portion of the costs accruing to the Government for the civil service retirement system, those agencies whose operations are intended to be self-supporting are annually receiving large unrecognized subsidies. We have identified subsidies ranging from \$800,000 for the Farm Credit Administration to over \$1 billion annually for the U.S. Postal Service. The understatement of operational costs and the subsidies will continue until the full dynamic cost of the system is recognized

and allocated to those agencies and instrumentalities whose employees are covered by the system.

In contrast to the funding policies of the civil service system, the military retirement system is operated on a noncontributory, pay-as-you-go basis. No fund is maintained and benefit payments are financed by annual appropriations. Consequently, the Department of Defense budget reflects the cost of retirement benefits earned in prior years but does not include any accrual of retirement costs for current military personnel.

Based on the economic assumptions followed by OMB for the civil service system, the Department of Defense has estimated the dynamic cost of the military system to be 37.1 percent of basic pay. The proposed 1980 budget for DOD includes \$18.1 billion in basic pay for active military personnel. At a dynamic cost of 37.1 percent of pay, the cost of retirement benefits accruing during the year would be \$6.7 billion. However, because the system operates on a pay-as-you-go basis, none of this cost is shown in DOD's budget.

Our recommendations on Federal retirement system costing and funding policies have been fairly simple and straightforward--the Government should adopt actuarial valuation methods and funding provisions that reflect the full

cost of accruing retirement benefits and charge to agency operations all costs not covered by employee contributions.

Before turning to the State and local situation, I should mention that late last year legislation was enacted requiring Federal retirement systems to file annual reports with the Congress and the Comptroller General fully disclosing their financial condition. 1/ This requirement is similar to that imposed on private pension plans by the Employee Retirement Income Security Act of 1974 (ERISA). GAO and the executive branch are responsible for developing the reporting standards to be followed in complying with this new law. It is my intention that the reports will provide sufficient information to enable those interested to fairly assess the present and future ability of the plans to meet their benefit obligations.

Funding of State and local public pension plans is also a serious problem. The Congress is considering establishing Federal standards for State and local plans similar to those imposed on private plans by ERISA. We recently reviewed the funding of 72 pension plans administered by 8 States and 26 local governments. The plans cover about 1.4 million employees and pay benefits to about 425,000 retirees and beneficiaries. The systems had assets valued at \$18.3 billion and unfunded liabilities of about \$29 billion.

1/Public Law 95-595, approved November 4, 1978. Amended the Budget and Accounting Procedures Act of 1950.

The purpose of our review was to determine the impact that establishing Federal funding standards would have on State and local governments and on the Federal Government, which makes significant contributions to the plans through Federal grants. In analyzing the potential impact, we used funding criteria set forth in ERISA.

Total annual government contributions to the 72 plans amounted to \$2.4 billion. However, 53 of the plans were not receiving large enough contributions to satisfy ERISA funding standards. In fact, adopting funding standards similar to ERISA would require many of these governments to increase their contributions by more than 100 percent, and in a few cases by more than 400 percent. While funding the plans according to ERISA standards would have a serious initial impact on some jurisdictions, doing nothing will eventually have an even more serious impact.

Many governments believe they cannot afford actuarial pension funding. Voter resistance could be an obstacle. Proposition 13 in California drastically cut back on limited tax sources for pension financing, and similar resistance is expected in other States.

A number of State and local governments have begun to tackle pension funding, with actions ranging from attempts to identify the problem to adopting and implementing measures

to solve it. Other jurisdictions, however, have taken no steps to start funding their plans on a sound actuarial basis.

Overall, reform at the State and local levels is moving slowly, and the prospects for significant improvement in the foreseeable future are not bright. While it might be in the national interest for the Congress to assure, through legislation, the long-term financial stability of these pension plans through sound funding standards, the Federal Government's authority to regulate State and local plans has not been resolved.

DISABILITY RETIREMENT

Disability retirement is another issue GAO has addressed in several reports. Many Federal employees retire on disability, and these retirements have added substantially to the retirement systems' costs. At the end of 1978, there were about 323,000 disabled civil service retirees collecting annuities totaling about \$2.2 billion annually. During that year, 32 percent of all new retirees under the system retired on disability. Based on our work, we believe it is highly questionable that all these retirees were incapable of further Government service.

Under the civil service system, employees are considered to be legally disabled if they are unable, because of disease or injury, to perform usefully and efficiently in

the positions they occupy. As interpreted by the Office of Personnel Management (which is responsible for administering the system's provisions), this means that an employee unable to do one essential function of his job is disabled. All disabled employees, if they have at least 5 years of service, retire on full disability because no provision exists for partial disability.

If a disabled employee can perform in other positions and the agency can find a position for which the employee is qualified, we believe the agency should have reassignment authority and actively seek an alternative position. In a 1976 report on disability retirement, we estimated that about 15,000 annuitants receiving disability benefits in 1975 were probably capable of performing other types of work at the time of their retirement. Disability retirement applications require information regarding agency efforts to reassign the employee to a suitable position. However, our report noted that this information was not included in 62 percent of the cases sampled.

Civil service disability payments continue until annuitants become medically or economically recovered. Economic recovery is assumed if, in each of 2 consecutive years, annuitants' earnings equal or exceed 80 percent of the current rate of compensation for their last Government job. This

income limitation provision can be manipulated. Annuitants have earned more than the pay for their prior Government jobs over a 2-year span, received sizeable annuity payments, and yet were not considered economically recovered. We have reported examples of annuitants who earned from \$17,000 to \$42,000 more in 2 years than their Government job would have paid but were continued on the disability rolls because they did not exceed the 80-percent maximum in each of the 2 years. For example, we found one retiree who was determined to be disabled for a job paying \$22,000 a year and who earned \$16,777 and \$47,480 in other employment in 2 consecutive years. The annuitant continued to receive his disability annuity, because, under the law, he was not economically recovered.

We have made certain recommendations for changes to the disability retirement laws. We recommended that the Congress (1) enact legislation that would encourage, instead of discourage, retention of potentially productive employees by requiring agencies to assign employees to other jobs that they can perform and (2) revise the definition of economic recovery to preclude annuitants from earning more than the current pay for their former Government jobs and yet retaining their annuities.

Disability reform would assist considerably in reducing civil service retirement costs and in assuring greater

equity for all covered employees. We believe it is completely incongruous for the Government to have such a liberal disability retirement program on one hand and promote a hire-the-handicapped program on the other.

In this regard, we were pleased to receive just last week a paper prepared by staff at the Office of Personnel Management on the results of a disability retirement study it had completed. The staff agreed with many of our criticisms and concluded that the program needs changes to assure its continuing integrity. The paper called for improved policing of the disability roll, tightening of the program's earnings limitation, and movement toward retaining more employees who, while disabled for their current job, have the potential to succeed in other assignments. We welcome this interest in disability reform and will certainly urge that it be converted to an action plan as soon as possible.

EARLY RETIREMENT

Early retirement is another major issue which GAO has studied. I recognize that the term early retirement can have different meanings. To some it may mean retiring at any age before 65, while to others it may mean retiring before meeting a plan's requirements for normal retirement. However, with respect to Federal pension plans, I am using the term to refer to provisions which allow certain personnel to retire on an immediate full annuity under age and/or

service requirements lower than those applicable to most Federal personnel. We would probably all agree that the civil service system's retirement age of 55 is very early. However, what is not generally recognized is that many Federal personnel can retire on an immediate annuity even earlier than age 55.

As I mentioned before, special provisions of the civil service retirement system allow Federal law enforcement officers and firefighters to retire at an earlier age, with less service and on higher annuities than most personnel covered by the system. Such personnel may retire at age 50 after completing 20 years of service and receive an immediate annuity equal to 50 percent of their high-3 years average salary. In contrast, most other personnel covered by the system must be at least age 60 to retire after 20 years of service and would receive an annuity equal only to 36.25 percent of their high-3 salary.

This early retirement policy was enacted more than 30 years ago to improve the quality of Federal law enforcement service by helping to maintain a young, vigorous work force. The special annuity formula was not intended to reward the employees for performing demanding or hazardous services. Rather, the Congress was led to believe that only young employees could effectively perform these jobs and the more

generous annuities were needed to make earlier retirement economically feasible.

We evaluated the policy in terms of its reasonableness, effectiveness, and costs, and concluded that the need for continuing it is questionable. There were several reasons for this conclusion, but perhaps the primary one was the fact that employees covered by the special policy are not retiring much earlier than those who are not covered by it and the costs of covered employee's benefits is considerably greater.

We found that over the policy's 30-year history, the average retirement age of covered employees has ranged from only 1 to 3 years below that of employees retiring under regular civil service optional retirement provisions. To achieve this 1-to-3 year reduction, the Government pays heavily. Based on actuarial estimates, the annual cost for the early retirement benefits is 61 percent more than what the cost would be to provide the same employees with regular benefits.

Maintaining a trained, alert, and vigorous work force is difficult, but this problem exists to varying degrees in most Federal occupations. Problems such as this normally are, and should be, resolved by using available personnel management techniques and, if needed for recruitment and retention purposes, special rates of pay. Employees who

cannot perform satisfactorily before the regular retirement age should be reassigned to less demanding duties or, as a last resort, retired on disability or workers' compensation.

Another Federal system which provides early retirement benefits is the military system. Active military members may retire at any age after 20 years of military service and receive a pension equal to 50 percent of their final basic pay. These benefits don't cost them anything, and they also have social security as an add-on.

According to the Department of Defense, the objectives of 20-year retirement are to (1) assist in attracting and retaining qualified members, (2) provide a socially acceptable method of removing some members who must be separated to maintain a young and vigorous force, and (3) provide, after many years of faithful service, some degree of financial security.

Since these objectives would seem to be appropriate for any retirement system, we questioned whether 20-year retirement is justified to achieve the objectives for military personnel when similar early retirement benefits are not provided to Federal civilian employees.

Much of the debate centering around early retirement in the military concerns perceptions about the rigors of military life, time spent overseas, and combat readiness. DOD views youth and vigor as a universal requirement for

all members regardless of occupational specialty or type of assignment. However, DOD has not been able to explain what it means by a "young and vigorous" force. Also, it does not know how old service members are when they are no longer young and vigorous or what occupations require youth and vigor.

Combat-related jobs may require younger personnel than other Federal occupations. In noncombat jobs, however, the maturity, experience, and judgment gained through longer service are more valuable than physical stamina and agility. We examined the career experiences of 800 military personnel who retired in 1975 to determine where the services were using their career personnel.

We found that far more time was devoted by career personnel to support-type activities, such as administration and communication, than to combat-related activities, such as tactical and infantry operations. A full 92 percent of all the enlisted personnel career time and 67 percent of the officers' career months were spent on support-type activities.

In keeping with its contention that a young and vigorous force is needed in all military occupations, DOD employs a highly competitive and restrictive promotion system that precludes many members from serving full careers in excess of 20 years. Under this "up-or-out" system, DOD retains the

right to deny reenlistments to enlisted personnel and to mandatorily retire officers if they fail twice to be selected for promotion.

Elimination of 20-year retirement for all personnel would either require changes to the up-or-out system or adoption of retirement provisions similar to those found in most civilian retirement systems for the early retirement of personnel involuntarily separated before normal retirement eligibility.

In our opinion, continuation of 20-year retirement for all military personnel is not justified. Military officers retire at an average age of 46 with 24 years of service and enlisted personnel retire at an average age of 41 with 21 years of service. In addition to the retirements of able personnel that result from the up-or-out policy, other members obviously are retiring voluntarily upon reaching retirement eligibility. The ability to receive retirement benefits at a relatively early age and begin a second career in other employment is, understandably, too powerful an incentive to resist.

There is one other early retirement policy I would like to discuss. This is a provision which allows early retirement for civilian employees who are involuntarily separated from service. Under the civil service system, any employees who are involuntarily separated, through no fault of their

own, are entitled to an immediate pension if they are at least age 50 and have 20 years of service or, regardless of age, have completed 25 years of service.

In 1973, a law was enacted which significantly changed this early retirement policy. The law authorized voluntary early retirements for employees of agencies undergoing major reductions in their workforce. This meant that employees of an agency meeting the age and service requirements for involuntary retirement could voluntarily retire even if they were not affected by the agency's workforce reduction. The basic purpose of this change was to reduce involuntary separations of younger workers who might otherwise be dismissed during the reduction of an agency's workforce and who would not be eligible for immediate retirement benefits.

Regulations implementing this law provided that voluntary early retirements would be authorized when at least 5 percent of the employees of an agency undergoing a reduction in workforce were to be involuntarily separated.

The Civil Service Reform Act of 1978 expanded this voluntary early retirement policy by also allowing such retirements for employees of agencies undergoing major reorganizations or transfers of function. As a consequence of this change authorizations for early retirements have increased significantly. In 1977 and 1978 combined, approval was given to 48 agency requests for early retirement authority

under the 1973 law. In contrast, during the first 7 months of this year there have been 45 early retirement authorizations granted under the policy as expanded by the Reform Act.

At the end of 1978, over 122,000 retirees, or about 11 percent of all civil service retirees on the rolls, retired under the system's early voluntary or involuntary provisions. An estimate of how many early retirees there will be in 1979 is not yet available, but the increase in early retirement authorizations would indicate the number may be substantial.

We recently began a review of these early retirement provisions. While our work is far from being completed, information developed to date has raised serious questions in our minds concerning both the justification for and management's use of the provisions, particularly as revised by the Civil Service Reform Act.

PENSION INDEXING

Finally, I would like to discuss pension indexing. Considerable attention has been given in the Congress and elsewhere to the annuity cost-of-living adjustment provisions of Federal retirement systems and we have issued several reports on the subject.

Federal retirees are the only groups which we are aware of who receive unlimited cost-of-living adjustments automatically twice a year. We have recommended that, as a minimum,

annuity adjustments should be granted once a year. We have also reported on a problem in the law that permits new retirees to benefit from cost-of-living increases which occur while they are still employed.

By law, cost-of-living adjustments are applicable to all annuitants on the roll on the effective date of the increase. Because of this, many employees would retire just before an adjustment was due. To avoid a rash of retirements at one time, the law was amended in 1973 to guarantee that retiring employees would receive an annuity at least equal to the annuity they could have earned if they had retired at the time of the preceding cost-of-living adjustment. Although the amendment has reduced the number of retirements occurring before a scheduled annuity increase, it allows employees who retire immediately before a cost-of-living increase to receive that increase and to have the preceding cost-of-living increase considered in their basic annuity calculation. Such increases escalate the already high costs of Federal retirement by inflating the basic annuity upon which succeeding adjustments are applied and can encourage valuable, experienced employees to retire.

We estimated that a change in the law to provide that new retirees' adjustments be prorated to include only the cost-of-living increases that occur after retirement would

save over \$800 million in annuity payments over the remaining lifespans of civil service employees retiring in 1978 alone.

If the changes we have recommended are adopted, Federal cost-of-living adjustment processes would still be more generous than those of non-Federal pension plans, but more consistent with those provided by the social security program.

Adjusting pensions to keep pace with inflation can be a very expensive proposition, as the Government has learned from experience with its own retirement programs. While most pension plans do not provide automatic adjustments, the pressure for such provisions, along with the rate of inflation, has grown considerably in recent years.

I understand that, in current contract talks, a top priority of the United Auto Workers union is to obtain inflation protection for its 200,000 retired members. While a 1971 Supreme Court decision ruled that it is not mandatory for management to bargain over retirees pensions, legislation has been introduced which would require the subject be allowed on the bargaining table. The Chairman of the House subcommittee holding hearings on the bill has said that the Congress has received more mail on the issue than any other this year.

The erosion of the purchasing power of retirement benefits is certainly a serious issue. In addressing the issue, there

are at least three basic questions which I think need to be considered. These are (1) to what extent should retirement benefits be protected against inflation, (2) who should pay for the cost of the protection, and (3) what basis should be used to determine when benefit adjustments are needed. Let me briefly comment on each of these.

In establishing the objective of a policy to protect retirement benefits against inflation, consideration should be given to the extent to which the value of benefits should be maintained. This involves, among others, a question of equity. Should the purchasing power of pensions to former employees be fully guaranteed against inflation, when, at the same time, the incomes of current employees are not similarly protected? Should we attempt to completely isolate retirees from the burden of inflation?

As I mentioned earlier, protecting retirement benefits against inflation can be very expensive. In adopting a policy to provide such protection, consideration must also be given to who should bear the costs involved. Should employers assume the full expense and pass it on to consumers, or should employees share the cost, and if so, to what extent? If employees want the value of their pensions maintained during retirement, should they be required to sacrifice a portion of their current income to pay for such protection?

Of course these questions can apply to retirement benefits in general, but they become more and more significant as the cost of benefits increase.

If the purchasing value of pension benefits is to be maintained, an appropriate index will be needed to measure changes in the value of benefits. While the Consumer Price Index (CPI) is commonly accepted as a measurement of the cost of living, I am not sure it is an appropriate index to use for adjusting the purchasing power of pension benefits. The CPI measures the average monthly change in the cost of a fixed "market basket" of goods and services purchased by urban wage earners and clerical workers and their families. As such, it does not necessarily reflect the market baskets of retirees. Furthermore, some of the major items in the CPI market basket are items most people buy very infrequently. For example, homes. As the price of homes and mortgage interest rates rise so does the overall index. But how many retirees are in the housing market? It may be necessary and appropriate to develop a special index for adjusting retirement benefits.

CONCLUSIONS

In concluding, I would like to say that resolving the many issues facing public pension plans will take a great deal of time and energy. But the effort will be a small price to pay in comparison to the cost of doing nothing.

I, think that this symposium and those who have chosen to participate in it is evidence of the importance of the issues involved.

Even though the most needed basic reform is the establishment of a Federal retirement policy, there is no need to wait for this policy to correct many of the problems I have discussed. Needed changes such as revisions in funding practices, disability reform, elimination of overly liberal annuity adjustment provisions, and cutting back on early retirements should be accomplished now. I would welcome your support in helping us to convince the Congress to move on these very important issues.

Thank you very much.

9/26/79

ASPEN INSTITUTE'S "WORKSHOP ON PUBLIC EMPLOYEE PENSIONS"

The following statement was made by the moderator upon the conclusion of the pension symposium at Wye Plantation (Aspen East) on September 26.

The Aspen Institute's taskforce on Financing the Future has convened a group to consider "the quiet crisis of public pensions" which has been meeting at Aspen Insitute at Wye Plantation for the last three days.

There was general recognition that public pension policy (that is, pension plans provided for Federal, State and local government employees) constitutes a critical problem confronting government. To ignore this quiet but growing crisis will represent a major bankruptcy of governance in America.

The impact of the crisis can be measured in three ways:

--The financial burden for our children and our children's children of public pension plans many of which are grossly underfunded. (By 1986, it is estimated, unfunded liabilities of federal plans alone will amount to more than 349 billion dollars. Other estimates of costs to future generations including inflation projections and state and local plans' unfunded liabilities range up to a trillion dollars.) This cost could raise substantially that portion of payrolls required to service pension indebtedness and benefits. The gross disparities among the multiple retirement plans-38 separate plans for Federal personnel alone and about six thousand more for state and local government employees. The even greater disparities between public and private pension plans-especially those public plans which are indexed to the cost of living-which can become divisive force in our society and contribute to mounting social unrest.

-- The windfalls and shortfalls of public pension plans represent a direct challenge to government since they involve government employees. It is a challenge to the objectivity of the policy makers of government because the benefits are paid to them and their staffs.

Unless positive steps are taken to resolve the shortcomings of public employee pension policy, the situation could eventually provoke outrage among the citizenry, damaging the credibility of government and its leaders.

In all our considerations, there are several elements of concern which must be kept in focus simultaneously;

- adequate level of benefits for retirees
- prudent use of tax dollars for public pension financing
- actuarial soundness of public pension plans
- full public awareness of future costs

We have identified, as major components of public employee pension reform, the need to establish the following;

- A basic policy for all public pension systems--one which recognizes the paramount values at stake.
- Equity in total compensation including pensions between public and private pension policy.
- Sound approaches to such fundamental issues as retirement age, disability criteria, basic benefit formulas, employee contributions, indexing for inflation, funding requirements, overlapping eligibility and standards for administration accounting, disclosure and fiduciary responsibility.

The group was unanimous that the matter of social security coverage for public employees must be faced and resolved. No effort was made to settle this issue at this set of meetings however pending the outcome of studies currently underway.

We recognize that reform will not be easy. In this era of inflation, present and prospective pensioners are fearful that benefits will be stripped from them. There is fear of Federal bureaucracy and rule making in this complex area. There is the reluctance of Federal policy makers to tamper with a system from which they benefit personally.

Yet there is an even greater fear which should influence the policy maker. It is that public pension programs will be bankrupted by unrealistic expectations and inadequate funding. There should also be the fear that private workers and pensioners will rebel against public pension plans whose mounting liabilities they are called on to assist in funding.

An adequate approach to public policy in this area will require:

First, the gathering and widespread publicizing of essential facts about the present crisis of public pensions.

Second, the development of effective procedures within the executive and legislative branches of government for reviewing public pensions systematically and formulating overall rather than piece-meal policy.

Third, the convening of regular hearings at which public policy can be debated from a wide variety of perspectives.

Fourth, the maintenance of a forum outside government which can take regular measure of how well government has faced this quiet but real crisis for a free society.